

Montana Petroleum Assn.
Submitted by: Dave Galt (442-7582)
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Senate Bill 432

Mr. Chairman, Members of the Committee, for the record I am Dave Galt, executive director of the Montana Petroleum Association. MPA stands in opposition of SB 432, which mandates biodiesel across the state and eliminates customer choice.

We have concerns in three areas: quality, cost and the operational feasibility of this mandate. Let me explain.

First quality: The state will need to ensure that all biodiesel meets the same standards. Our members have experienced quality problems with 100% biodiesel we will need to blend the fuel. Under existing law all biodiesel must meet ASTM D 6751 but to my knowledge there is no enforcement of that standard. This standard is a vital component to future acceptance of biodiesel. Who checks it? Look at the fiscal note, DOLI is only checking the D-975 standard for the blend, which is an easy and inexpensive test. My members tell me that checking the ASTM D 6751 standard is much more complex and is now done at outside labs. Who insures that the bio product delivered to the terminal meets this standard? Who is responsible for bad fuel? I know my members will suffer the consequences for bad product if this bill passes. At the very least there should be a testing program in state government that is funded by the state. Furthermore, all shipments to a facility for blending should be accompanied with a certification tied to the bill of lading that the B-100 meets the ASTM specifications. And the bio producer should be penalized if there is no certification, the certification is false, or if the bio product is of poor quality.

In November of 2004 the Montana Department of Transportation finished a study into the issues with biodiesel use. Biodiesel was used in several locations in Montana for a 6-month time frame that included winter months. There were problems experienced with the fuel. The most significant problem was clogged fuel filters on the vehicles in the winter months; another was microbial growth in the bio fuel tanks. I wonder if Montana is prepared for those potential problems caused by this mandate? This study showed that problems did exist, particularly with winter biodiesel use. Keep in mind that MDT had heated garages for their vehicles. I understand that the blend used in the study was B-20, but problems still occur. I would like to pass out a short article taken from an ABC news website on 2/5/07. Bottom line bio fuel does have problems in the winter.

There is a belief that once you change the fuel filter your problems are over. I have discussed biodiesel use with people in Minnesota, a state that has a biodiesel mandate, both at the Trucking Association and the Petroleum Marketers Association and they say the problems still exist. Some will tell you that they did not have an ASTM standard for the blend and once it was in law the problem was solved. It is true that they did not have the ASTM standard when it was first introduced and they have corrected that, but they still are having problems in cold weather.

There is a serious issue here. Will every diesel vehicle have fuel filter problems? Will those problems occur in convenient areas to fix them? Since most problems occur in winter is there a safety issue?

Secondly, biodiesel currently cannot be transported by existing pipelines, which carry non-blended products such as gasoline and aviation fuel. This means each fuel distribution terminal will need to have receiving, blending and storage facilities constructed. My members tell me that the cost of blending fuel at the terminal

rack is estimated at \$2 million dollars per facility. This figure represents just the capital costs to add the receiving, storage and blending equipment and does not include the handling and transportation costs of the biodiesel, or costs to acquire additional land if it is necessary to expand a facility. ConocoPhillips currently has 5 terminal rack facilities located in Helena, Great Falls, Missoula, Bozeman and Billings. Several of these locations have plot space limitations. These spaces needs also do not factor in the additional land needs at the terminals in the event the ethanol mandate goes into effect. I am curious what we are expected to do if we cannot acquire additional land for expansion? There are a total of 11 terminal facilities making the minimum capital cost for receiving, blending and storage of \$ 22 million dollars. We also know that we will need heated storage facilities for biodiesel in tanks waiting for blending. In addition, it is reasonable to point out that, if the goal of mandated biodiesel blending is to displace petroleum-based diesel, much if not all of the benefit will be consumed in transporting the biodiesel to multiple sites across the state for delivery at terminals.

I know that many Montanans depend on heating oil for their home furnaces. That oil is most often diesel fuel. Will this mandate affect home furnaces and if so how? Will each fuel distributor have to deal with keeping separate fuels in areas where heating fuel is required? Will fuel left in heating fuel tanks in the summer be rendered useless by microbial growth and if so who bears that cost?

If this bill passes and all biodiesel is a blend, where is the department expected to get price data on 100% petroleum based diesel for a possible temporary exemption? Secondly, I just want to point out that in SB 67 it originally asserted that price increases over 10% could be considered price gouging, this has now been amended to 20%, but still there is a serious question here that needs some discussion. This exemption is very confusing and resulted in numerous discussions of how it will be applied. This needs clarification.

Going further into the temporary exemptions, I see that this bill recognizes that engine performance problems are an issue. The actual application of this temporary exemption needs discussion. Does one breakdown somewhere in Montana trigger this exemption? What are the ramifications and potential dangers to passengers of vehicle problems caused by this fuel in the event of a breakdown?

How will the department determine if the blend stock is readily available? What does that mean?

In section 8, am I correct or incorrect in my understanding that on July 1, 2008 the mandate is effective, regardless of whether we have fuel produced in Montana or not? In addition, the refining capacity necessary to trigger the mandate should apply only to that capacity to produce that bio product meeting the appropriate quality standard.

Mandating biodiesel has numerous potential problems plus significant cost which will ultimately be borne by consumers. We simply do n have the infrastructure in place today, to handle a biodiesel mandate.

At the same time we do have outlets now for biodiesel fuel, we suggest you continue to let the market develop this product. MPA does not support a mandate and we urge you to not pass this bill.